

MARKET VIABILITY OF MIXED-USE DEVELOPMENT

SWEETWATER PLACE, SPRING VALLEY, CA

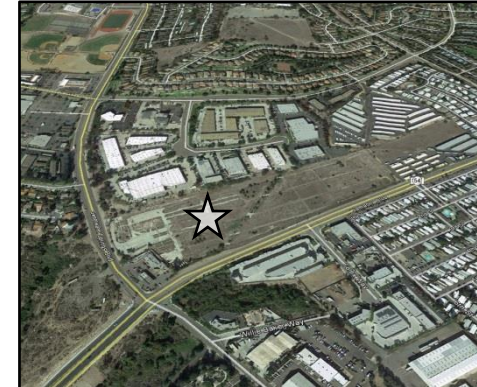
(PROJECT NUMBERS: PDS2014-GPA14-003, PDS2014-REZ14-003, PDS2014-TM5588, PDS2014-STP-14-015)

SWEETWATER SPRINGS, LLC — July 2015

JOHN BURNS
REAL ESTATE CONSULTING



PRIMARY COMMUNITY ENTRY



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BACKGROUND:

Sweetwater Place (“Subject” or “Site”) is a proposed mixed-use development (122 for-sale single family detached residential units and a public community park) located at the northeast corner of Jamacha Boulevard and Sweetwater Springs Boulevard, in the community of Spring Valley, in unincorporated San Diego County, California. John Burns Real Estate Consulting, LLC (“JBREC”) was retained by Sweetwater Springs, LLC to conduct this study. The Spring Valley Community Plan “Special Plans and Special Study Areas” as adopted by San Diego County general Plan is referenced as an Appendix to this study on page 28.

OBJECTIVE & METHODOLOGY:

The objective of this assignment was to evaluate the potential for the successful development of Sweetwater Place (“Subject”) as a mixed-use project with a combination of for-sale single family residential and retail components (for the purpose of this analysis, 40,000 square feet of retail space was assumed for the Subject). To meet the objective of this assignment, the following scope of work was conducted:

- Information was researched regarding “typical” elements of success for mixed-use projects (national perspective).
- “Case studies” were prepared for seven existing mixed-use projects in San Diego County to determine commonalities and differences between qualitative and quantitative attributes of “successful” and “unsuccessful” projects.
- Prior market studies and evaluations prepared for Sweetwater Place were reviewed for insights regarding market supply and demand conditions and implications relative to the development of the Subject as a mixed-use development (pertinent information from those prior studies is summarized in this report).
- The findings from the above were consolidated and conclusions were drawn regarding typical elements of success for mixed-use projects, commonalities among quantifiable attributes of mixed-use projects, and implications regarding the potential for the development of the Subject as a mixed-use project.

CONTACT INFORMATION:

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- The Subject is proposed for a 122-unit detached single family home condo development, which includes a landscaped buffer along Jamacha Boulevard, and a two acre public park on the west side of the property along Sweetwater Springs Boulevard.



- While there is no one set formula or criteria that can 100% predict success for a mixed-use development, “successful” mixed-use developments do share many common elements that typically differentiate them from “unsuccessful” projects. Based on research regarding mixed-use projects nationwide, and on “case studies” of seven existing mixed-use projects in San Diego County (summaries of the seven mixed-use projects can be found on pages 14-20), in general, more successful mixed-use developments tend to have the following elements:
 - Be designed to satisfy existing unmet demand in the competitive market for the various uses at the site
 - Be in areas that are under-supplied for Subject uses, and without precedence for failure for the subject uses
 - Be highly visible, be located less than one mile from a freeway, and provide convenience for consumers
 - Be compatible with, or complementary to, surrounding land-uses, often in areas with above-average home prices
 - Have relatively “high” residential subject project densities (typically over 28 units per acre)
 - Have growing population or income levels, and/or above-average total incomes within one mile of the subject site
 - Be able to attract demand at the site from outside the immediate trade area
 - Be pedestrian oriented, while still accounting for parking for all the uses at the project
 - Be of sufficient scale to create their own “sense of place”, and creating a “destination”
- More successful mixed-use projects tend to be a better match with the above elements than less successful projects. Among the seven existing mixed-use projects reviewed in San Diego County, only three were deemed to be “successful” (and had more correlation with the factors above), and four were determined to be “unsuccessful” (and had less correlation with the items listed above).
- **CONCLUSION: The Subject was judged on the same criteria as the San Diego County mixed-use case studies, and the Subject ranks lower, overall, on both the “Elements of Success” reviewed, and “Quantifiable Attributes” analyzed. This indicates that the Subject has a very low chance of success as a mixed-use development (with residential and retail [or office] uses). As such, we would recommend against proceeding with the project with retail or office uses.**

* For the purpose of this analysis, a “successful” mixed-use development was defined as a project with at least two land uses (in most cases, for-sale residential and retail) where the residential units sold (or leased up) at a “reasonable” pace (as dictated by market norms), the commercial portion leased up at a “reasonable” pace (generally within one to two years of project opening depending on the size of development), and where the project was built-out as proposed. “Unsuccessful” projects were defined as projects that did not sell (or lease up) at a reasonable pace, where the commercial did not lease up at a reasonable pace (two or more years to 95% occupancy), the project was not built-out as proposed (some of the case studies opened as for-sale projects, but did not have adequate demand, and subsequently converted to rentals), or the project was forced into bankruptcy or foreclosure.

- The elements below are generally recognized as typical ingredients for a successful mixed-use project. Mixed-use is broadly defined as having two or more different real estate product types within one development. A successful mixed-used development would be able to satisfy most or all of the following elements (some of which are subjective):

Element for Successful Mixed-Use Development		Does the Subject site satisfy the element?	
1	Each use on the site must attract its own sufficient level of demand	NO	Only the for-sale residential component has enough demand to be viable at the Subject; retail does not have enough demand
2	Each use is able to generate revenue from the other uses	NO	With only 122 units, the level of retail expenditures generated by the residential to support the Subject retail component is minimal
3	The new supply must meet unfulfilled demand	NO	There is no unfulfilled demand in the local market for retail or office projects
4	There must not be too much competition for the new supply	NO	There is too much nearby retail and office, as evidenced by low lease rates and a nearby failing retail center and high office vacancy
5	The proposed site must be highly visible, and usually less than one mile from the nearest freeway	NO	The Subject site is visible enough for the for-sale residential use, but not for a mixed-use development
6	The project must be compatible with surrounding uses	YES	For-sale residential and commercial uses are compatible with the neighborhood given the proposed Subject home types & prices
7	The project must provide an element of convenience from a consumer perspective	NO	The site is in a relatively low-density area and is 1.25 miles from the nearest freeway
8	There should not be a prior precedence for failure for any use within the development	NO	There is a nearby failing retail center and office vacancy rates are high by industry standards
9	Employment, population, and consumer disposable income should be growing within the submarket	NO	The mostly built-out nature of the area indicates that future population and employment growth will be limited
10	The project must have the potential to attract customers from outside the local trade area	NO	Specialized retail has the potential to attract customers outside of the local area, but typically most successful if on a “large” scale (such as Rancho San Diego retail)
11	The project should be oriented toward the pedestrian	NO	Most of the retail customers and office users would most likely drive to the site, Subject not a pedestrian oriented location
12	The project should create its own sense of “place”	NO	The scope of the project is insufficient to create the synergy necessary to drive a successful mixed-use development

- The elements below are typical indicators relative to the ultimate potential success of mixed-use developments. Virtually every mixed-use development is different in some way. "Successful" mixed-use developments score higher on the elements below than projects that are "unsuccessful". The table below scores seven different existing mixed-use developments in San Diego County as well as the Subject site (5=strong match to success element, 1= low match to success element). On this analysis, the Subject has the lowest score of all projects reviewed, indicating an extremely low potential for success.

Element for Successful Mixed-Use Development (Residential with retail and/or office uses)		SUCCESSFUL			UNSUCCESSFUL				SUBJECT
		Uptown District	Village at Morena	Pacific Station	Blu Water Crossing	Escondido Park Row	Piazza de Oro	Urbana	
1	Each use on the site must attract its own sufficient level of demand	5	4	4	3	2	3	3	2
2	Each use is able to generate revenue from the other uses	5	5	5	3	3	2	3	3
3	The new supply must meet unfulfilled demand	5	4	4	3	2	2	2	3
4	There must not be too much competition for the new supply	4	4	4	4	3	3	3	1
5	The proposed site must be highly visible	4	5	5	2	4	4	4	3
6	The project must be compatible with surrounding uses	5	5	5	5	4	4	2	3
7	The project must provide an element of convenience from a consumer perspective	5	5	4	3	4	3	3	2
8	There should not be a prior precedence for failure for any use within the development	3	3	3	3	2	2	2	2
9	Employment, population, and consumer disposable income should be growing within the submarket	3	4	4	3	2	2	3	3
10	The project must have the potential to attract customers from outside the trade area	4	4	3	3	1	3	3	2
11	The project should be oriented toward the pedestrian	5	5	5	2	4	1	1	1
12	The project should create its own sense of "place"	5	4	4	2	2	2	1	1
TOTAL POINTS		53	52	50	36	33	31	30	26

* For the purpose of this analysis, a "successful" mixed-use development was defined as a project with at least two land uses (in most cases, for-sale residential and retail) where the residential units sold (or leased up) at a "reasonable" pace (as dictated by market norms), the commercial portion leased up at a "reasonable" pace (generally within one to two years of project opening depending on the size of development), and where the project was built-out as proposed. "Unsuccessful" projects were defined as projects that did not sell (or lease up) at a reasonable pace, where the commercial did not lease up at a reasonable pace (two or more years to 95% occupancy), the project was not built-out as proposed (some of the case studies opened as for-sale projects, but did not have adequate demand, and subsequently converted to rentals), or the project was forced into bankruptcy or foreclosure.

- While there is no set criteria that can 100% predict the potential success of a mixed-use development, many factors about mixed-use projects are quantifiable and can be compared among projects to identify commonalities among successful, or unsuccessful, projects. The table below compares the seven mixed-use projects reviewed on eight different attributes. The following page ranks the projects against each other.

DATA		SUCCESSFUL			UNSUCCESSFUL				
Quantifiable Attributes		Uptown District	Village at Morena	Pacific Station	Blu Water Crossing	Escondido Park Row	Piazza de Oro	Urbana	SUBJECT
--	Total Points based on elements of success (see prior page)	53	52	50	36	33	31	30	26
--	Total Commercial Space: Retail and/or Office (Sq.Ft.)	148,638	18,800	55,000	20,000	5,382	20,000	12,700	40,000
--	Commercial Vacancy Rate	3%	12%	8%	100%	22%	27%	0%	--
1	Distance to freeway (miles)	0.33	0.48	0.81	0.89	1.36	1.12	0.81	1.30
2	# Residential Units	310	184	43	66	91	221	62	122
3	Residential Density (units/acre)	45	53	28	21	20	15	25	6
4	Median Income (1-mile)	\$49,427	\$56,254	\$80,011	\$82,436	\$46,208	\$57,446	\$77,278	\$68,371
5	Number of People (1-mile)	35,108	11,116	10,136	7,800	22,490	12,668	8,844	12,668
6	Number of Households (1-mile)	20,476	4,499	4,484	3,560	6,587	5,605	2,937	4,264
7	Households x Income (1-mile)	\$1,012,067,000	\$253,087,000	\$358,769,000	\$293,472,000	\$304,372,000	\$321,985,000	\$226,965,000	\$291,534,000
8	Median Home Value (1-mile)	\$416,935	\$371,228	\$665,398	\$601,358	\$330,659	\$383,447	\$412,264	\$350,902

- Vacancy:** The three successful projects have an average combined vacancy rate of just 5% (total combined vacant space divided by total combined space), while the unsuccessful projects have a combined average vacancy rate of 46%, even though the unsuccessful projects have had space available for at least five to ten years (in most cases the vacant space has never been occupied). Even the one unsuccessful project that is 100% occupied (Urbana), took over six years before the space was leased (one tenant leased all the space).
- Supportable Retail Space:** There is no set formula for the number of residential units required to support a certain square footage of retail space in a mixed-use project as projects must be evaluated not only on their own merits, but within the context of the greater market as a whole. In San Diego County today, there are about 47 square feet of occupied general retail space per household. This might imply that the 122 units at the Subject could support about 5,700 square feet of retail at the Subject (122 units x 47 sq.ft. per unit) – far less than the 40,000 square feet proposed. It is very important to note that projected retail demand at the Subject needs to be measured against the overall existing surplus or deficit of retail space in the competitive market as a whole, which has already been proven to be significantly over-supplied. As such, even 5,700 square feet of retail is likely not supportable at the Subject.
- Project Financing:** In today's lending environment, a banker lending on a retail project likely would require 50% of the space be pre-leased with a credit tenant prior to releasing financing for construction, with an 18 month lease-up for the remaining space. None of the unsuccessful projects would have met this criteria, and therefore likely would not have been financeable in today's market.

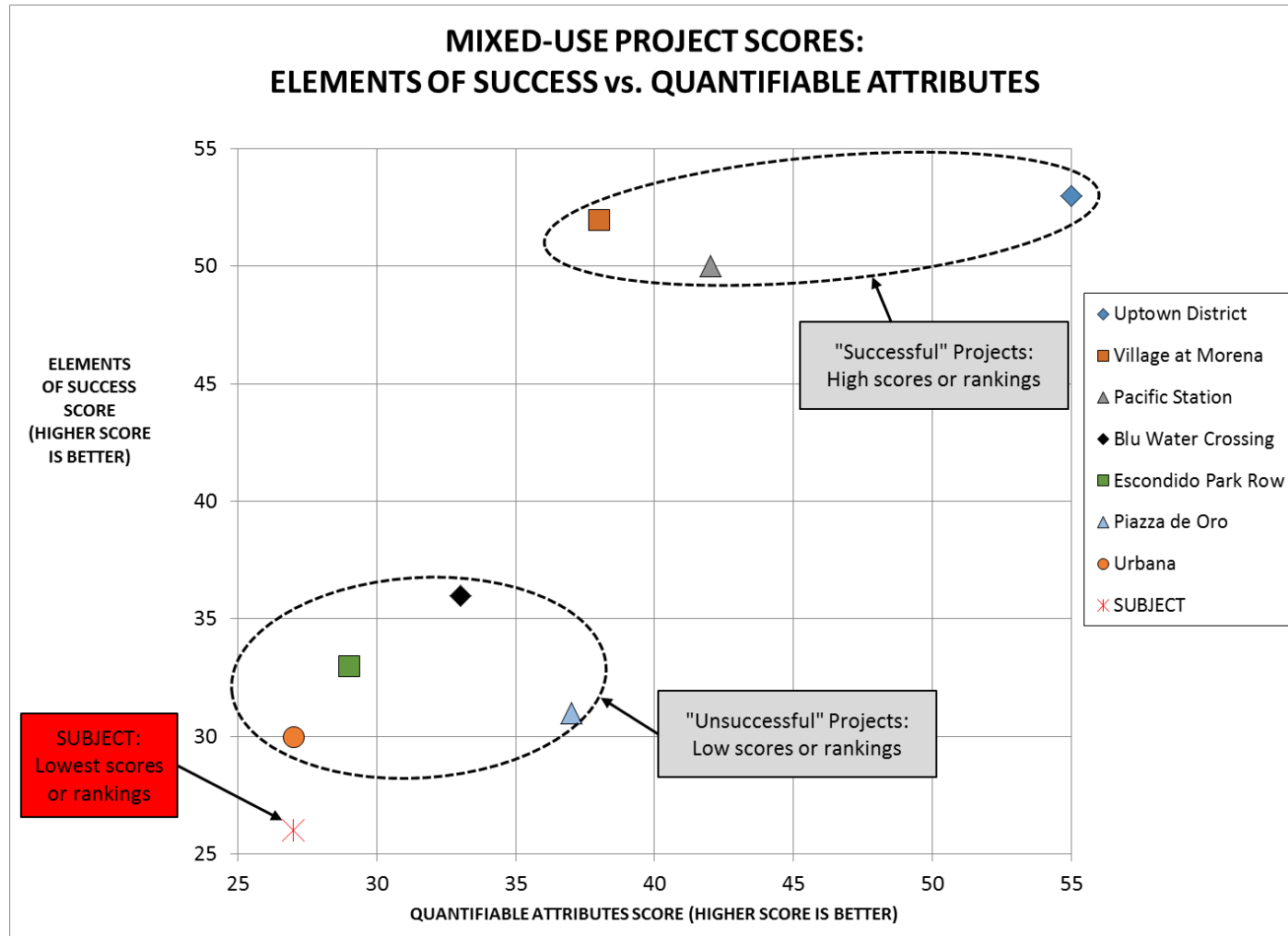
- The table below compares the seven mixed-use projects reviewed on eight different attributes, and ranks each project relative to each other, as well as the Subject. For point scoring purposes, 8=best and 1=worst, so higher total scores = better total rankings. However, the final “rankings” below are 1 = best overall score and 8 = worst overall score. **In San Diego County, the more successful mixed-use projects tend to:**

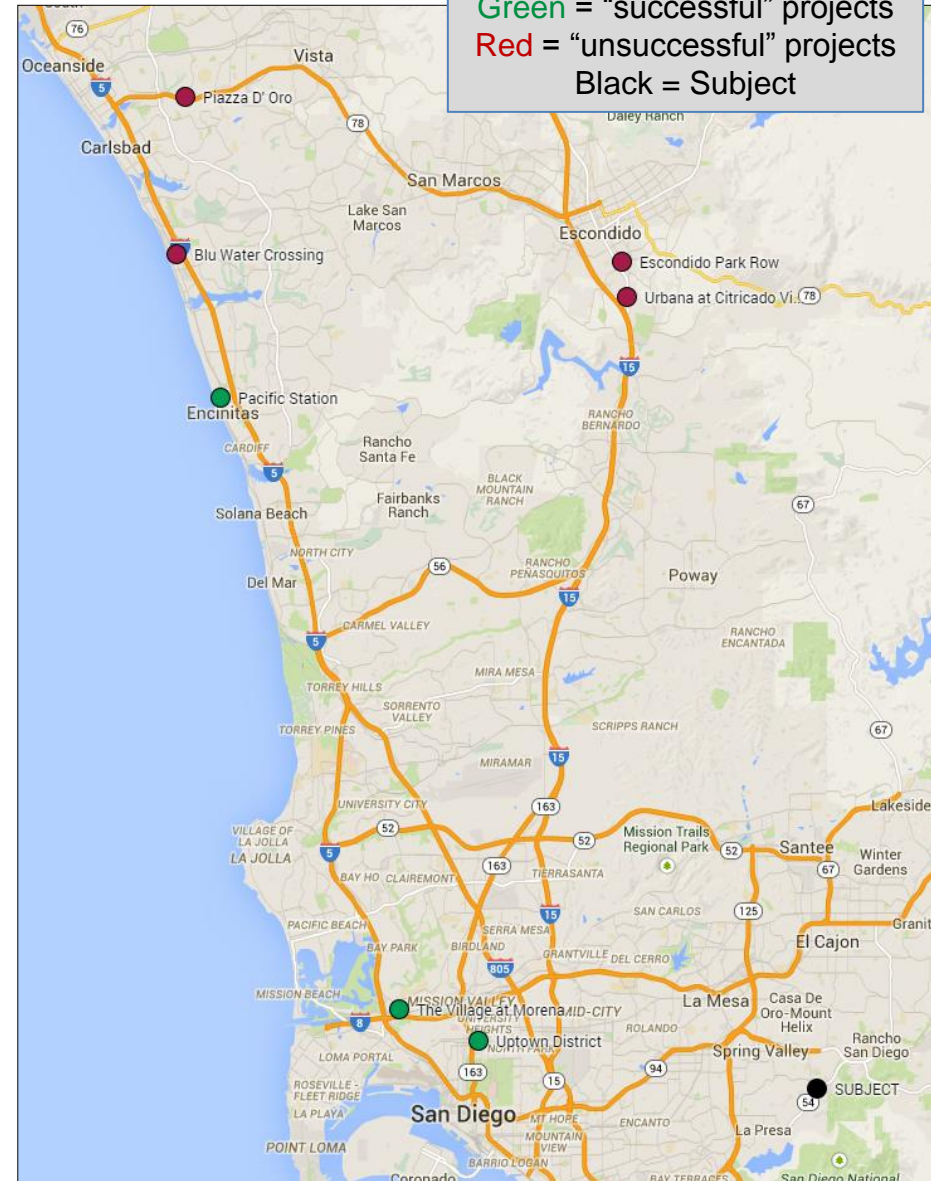
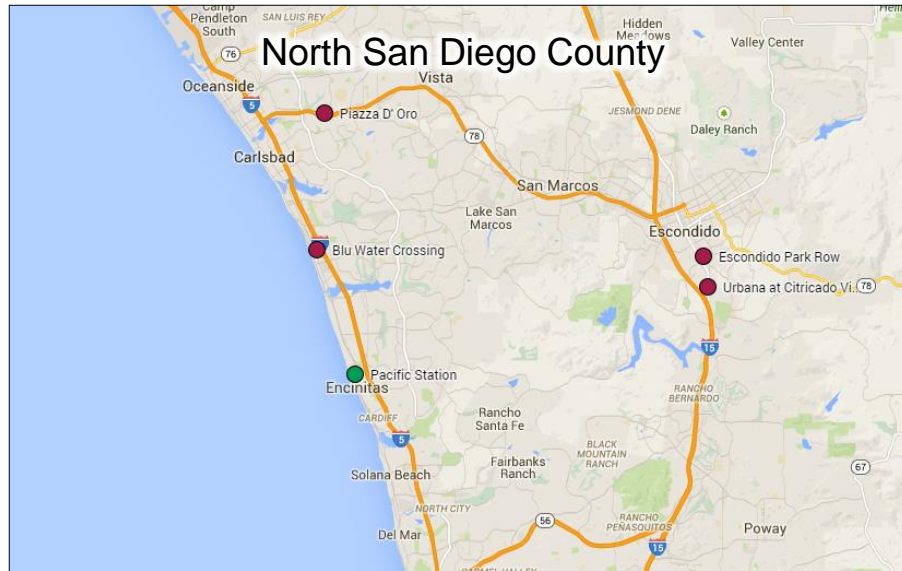
- be located closer to freeways (the top three highest scoring are all less than 0.81 miles to the nearest freeway) vs. farther away (four lowest scoring projects are all more than 0.81 miles to nearest freeway) – the Subject is one of the farthest away at 1.30 miles;
- have higher residential unit counts (two of the top three have over 180 units);
- be “high-density” projects (top three range from 28 to 53 units per acre, while the bottom four range from 15 to 25 units per acre) – the Subject has by far the lowest density at just 6 units per acre;
- have higher total incomes within a one mile radius (number of households x median income) – the top three average \$541M in total income vs. \$287M for the bottom four, and just \$291M at the Subject; and
- are in areas with higher home values (exception is apartment case study) – Subject area has the second lowest average home price.

- Conclusion: Relative to the quantifiable attributes reviewed, the Subject total score is tied for the lowest score of all projects reviewed, including the unsuccessful projects, indicating a very low likelihood for success at the Subject.**

RELATIVE RANKING (for point totals, 8=BEST, 1=WORST)		SUCCESSFUL			UNSUCCESSFUL				
Quantifiable Attributes		Uptown District	Village at Morena	Pacific Station	Blu Water Crossing	Escondido Park Row	Piazza de Oro	Urbana	SUBJECT
- -	Total Points based on elements of success (see Page 8)	53	52	50	36	33	31	30	26
1	Distance to freeway (miles)	8	7	6	4	1	3	5	2
2	# Residential Units	8	6	1	3	4	7	2	5
3	Residential Density (units/acre)	7	8	6	4	3	2	5	1
4	Median Income (1-mile)	2	3	7	8	1	4	6	5
5	Number of People (1-mile)	8	4	3	1	7	5	2	6
6	Number of Households (1-mile)	8	5	4	2	7	6	1	3
7	Households x Income (1-mile)	8	2	7	4	5	6	1	3
8	Median Home Value (1-mile)	6	3	8	7	1	4	5	2
Total	(Higher Score is Better)	55	38	42	33	29	37	27	27
Ranking	(1 = highest rank, 8 = lowest)	1	3	2	5	6	4	7	7

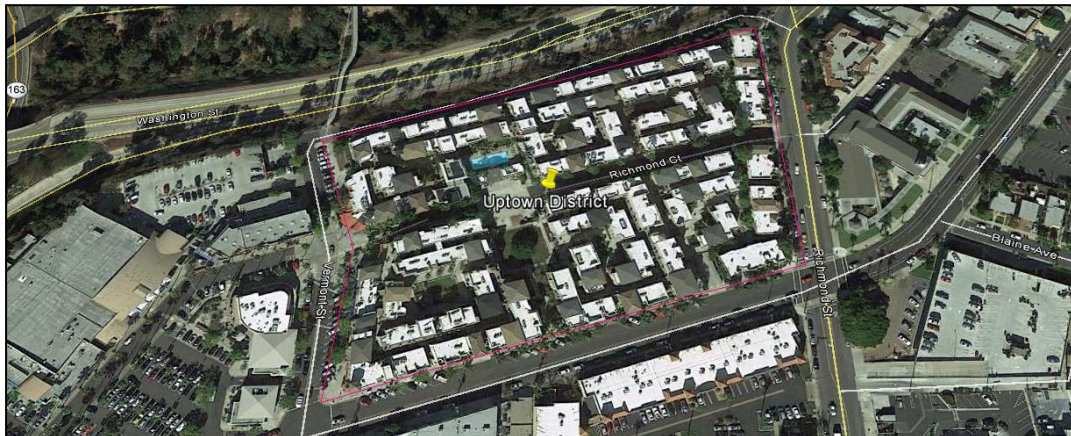
- There is a strong correlation among San Diego County mixed-use projects between the “Elements of Success” factors and the “Quantifiable Attributes” rankings. Projects that score higher on both scales (upper right corner) are more “successful” projects (as defined at the bottom of Page 4) compared to projects that score lower on both scales (lower left corner) which are more “unsuccessful” projects. The Subject scores are at the bottom for both scales, which would indicate that the potential for success is quite low. (See Pages 8, 9 & 10 for scores and rankings.)





Project Name: Uptown District

SUCCESSFUL

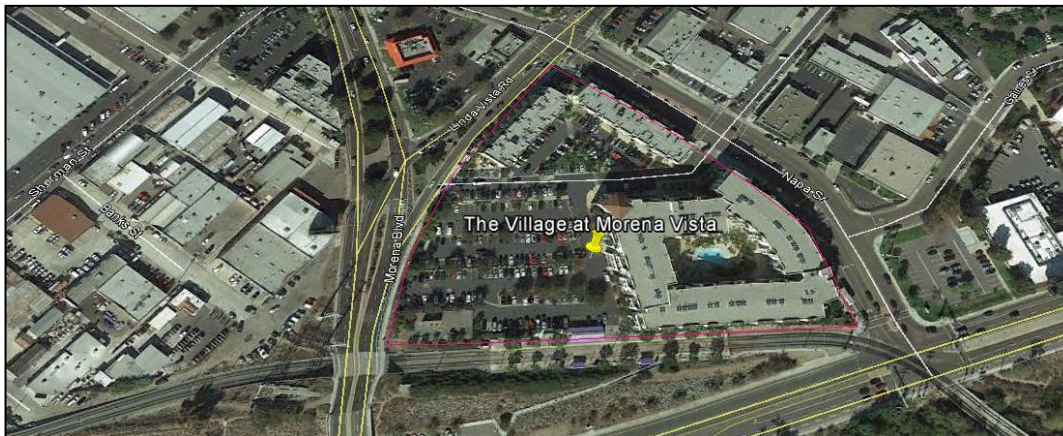


Location:	San Diego/Hillcrest
Built:	1990
Site Size:	6.54 acres
Distance to freeway:	0.1 miles
Product Types:	Flats, THs, Retail
Commercial SF:	148.6k sf retail
Vacant Comm SF:	4,843 (3%)
Major Tenants:	Panera Bread, Wells Fargo Bank
# Residential Units:	310
Residential Type:	flats, T.H.
Residential Unit Size:	662 – 1,085 sf
Residential Unit Pricing:	\$325,000 - \$435,000
1-mile radius-	
Median income:	\$49,427
Population:	35,108
Number of households:	20,476
Median home value:	\$416,935

Notes: 3-story buildings, residential is gated, underground parking for residential, directly across from large retail including Ralphs and Trader Joes. One block from busy University Avenue, neighborhood is dense residential and retail. Was a pioneering concept at the time it opened. Sold over 10/month when new.

Project Name: The Village at Morena Vista

SUCCESSFUL



Location:	San Diego/Morena
Built:	2006
Site Size:	5.78 acres
Distance to freeway:	0.2 miles
Product Types:	Rentals, Retail
Commercial SF:	18.8k sf retail
Vacant Comm SF:	2,278 (12%)
Major Tenants:	Mission Federal Credit Union, Starbucks

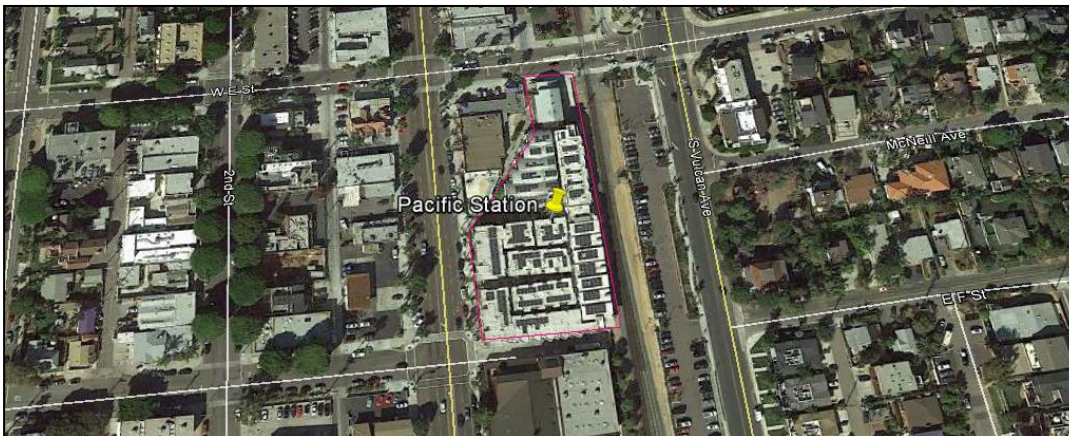
# Residential Units:	184
Residential Type:	Flats & 2-sty T.H.
Residential Unit Size:	678 – 1,450 sf
Residential Unit Pricing:	\$1,630 - \$2,784

1-mile radius-	
Median income:	\$56,254
Population:	11,116
Number of households:	4,499
Median home value:	\$371,228

Notes: 3-story buildings, ground level parking for retail, underground parking for residential, directly adjacent to trolley stop, at busy intersection of Napa and Linda Vista Rd., close to I-8 and I-5 freeways, neighborhood is primarily retail

Project Name: Pacific Station

SUCCESSFUL

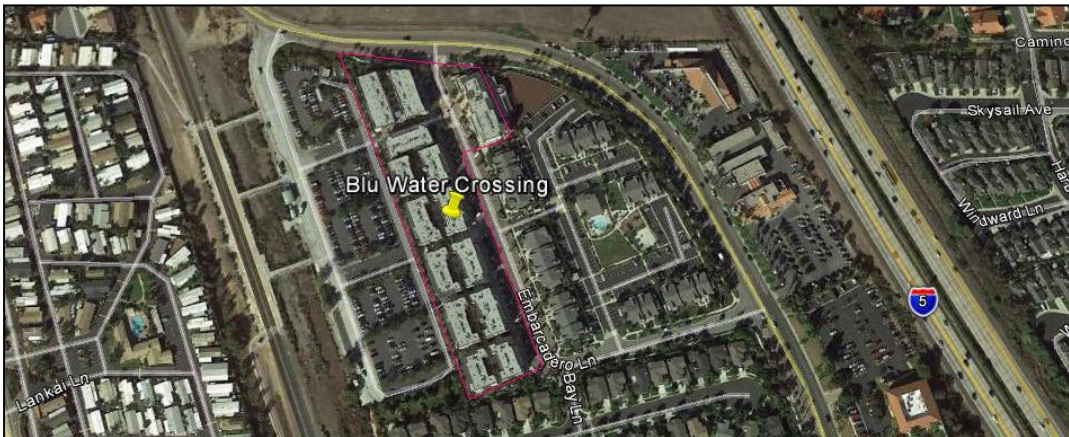


Location:	Encinitas
Built:	2010
Site Size:	1.53 acres
Distance to freeway:	0.4 miles
Product Types:	Flats & THs, Retail
Commercial SF:	40k sf retail, 10.5k sf office
Vacant Comm SF:	3,920 (8%)
Major Tenants:	Whole Foods, Solace Restaurant
# Residential Units:	43
Residential Type:	Flats & 2-sty T.H.
Residential Unit Size:	593 – 2,197 sf
Residential Unit Pricing:	\$475,000 – \$907,500
1-mile radius-	
Median income:	\$80,011
Population:	10,136
Number of households:	4,484
Median home value:	\$665,398

Notes: 14 flats, 23 2-story townhomes, 6 lofts, with 2 levels of underground parking, sits along busy Pacific Coast Hwy, one block from train station, just blocks from beach, neighborhood is dense older residential and smaller retail, currently 2 vacant comm'l spaces. Averaged about 24 sales/year.

Project Name: Blu Water Crossing

UNSUCCESSFUL

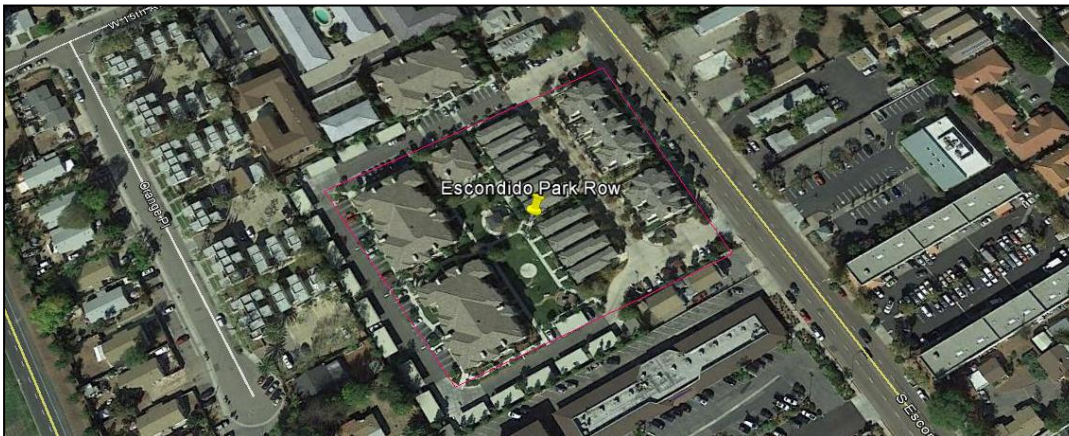


Location:	Carlsbad
Built:	2009
Site Size:	3.10 acres
Distance to freeway:	0.2 miles
Product Types:	Rentals, Retail
Commercial SF:	20,000 (plus live/work)
Vacant Comm SF:	20,000 (100%)
Major Tenants:	No tenants
# Residential Units:	66
Residential Type:	2 & 3-sty T.H.
Residential Unit Size:	1,354 – 2,767 sf
Residential Unit Pricing:	\$2,570 - \$3,575
1-mile radius-	
Median income:	\$82,436
Population:	7,800
Number of households:	3,560
Median home value:	\$601,358

Notes: 2 & 3-story rental townhomes over underground parking, there are two large vacant comm spaces near the entrance and both are vacant, 51 residential units are live/work with storefronts along street – apx 75% are occupied, originally built as for-sale condos but sales effort stalled, currently operated as rentals, neighborhood is mostly rentals, directly adjacent to train station, no nearby retail, very close to beach. Only sold a limited number of units before converted to rental.

Project Name: Escondido Park Row

UNSUCCESSFUL

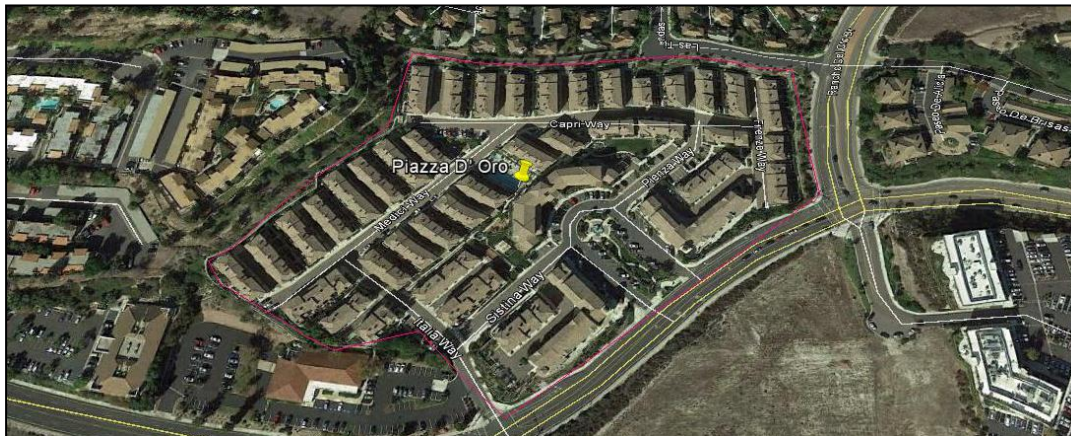


Location:	Escondido
Built:	2004
Site Size:	4.33 acres
Distance to freeway:	1.0 miles
Product Types:	Mixed Resid, Retail
Commercial SF:	5,382 (live/work)
Vacant Comm SF:	apx 1,196 (22%)
Major Tenants:	Small boutique shops
# Residential Units:	91
Residential Type:	3-sty T.H. & 2-sty SFD, 3-sty apartments
Residential Unit Size:	1,422 – 1,704 sf
Residential Unit Pricing:	\$315,000 - \$315,000
1-mile radius-	
Median income:	\$46,208
Population:	22,490
Number of households:	6,587
Median home value:	\$330,659

Notes: nine 3-story live/work townhomes with ground level parking and 10 small lot single family detached homes, live/work units (598 sf each) have storefronts along street – apx 78% are occupied, also includes 72 3-sty affordable apartments in rear, neighborhood is primarily low density single family detached with older retail boutique along busy Escondido Blvd. Averaged @ 15 sales/year.

Project Name: Piazza D' Oro

UNSUCCESSFUL



Location: Oceanside
Built: 2007
Site Size: 14.76 acres
Distance to freeway: 0.04 miles
Product Types: Flats, THs, Live/Work, Office Condos

Commercial SF: 3k sf retail, 17k sf office
Vacant Comm SF: 5,400 (27%)
Major Tenants: Small boutique

Residential Units: 221
Residential Type: flats, T.H., live/work
Residential Unit Size: 1,128 – 1,560 sf
Residential Unit Pricing: \$2,125 - \$2,650

1-mile radius-
Median income: \$57,446
Population: 12,668
Number of households: 5,605
Median home value: \$383,447

Notes: residential includes 2 & 3-story side-by-side townhomes, flats over retail space, and 3-story live/work residential/office condos, ground level parking, incl 929 – 3,724 sf office condos sold separately, neighborhood is dense residential and some office. Only sold a few units before converted to rentals.

Project Name: Urbana

UNSUCCESSFUL



Location: Escondido
Built: 2005
Site Size: 3.19 acres
Distance to freeway: 0.3 miles
Product Types: Townhomes, Retail

Commercial SF: 12.7k sf retail
Vacant Comm SF: 0 (0%)
Major Tenants: Fitness Unlimited2

Residential Units: 362
Residential Type: Townhomes
Residential Unit Size: 1,492 – 1,543 sf
Residential Unit Pricing: \$310,000 - \$324,000

1-mile radius-
Median income: \$77,278
Population: 8,844
Number of households: 2,937
Median home value: \$412,264

Notes: 3-story buildings, ground level parking, only 1 retail tenant occupies entire retail space, along busy Centre City Parkway, neighborhood is low density residential and some older office buildings. Took over six years to fill the retail space. Averaged about 3 sales per month when new (after builder lowered prices 80k to \$100k due to initial slower sales).

For-Sale Residential Development: The Subject is currently planned for 122 for-sale detached single family homes. The potential development of detached homes is feasible for the following reasons:

- There is a limited amount of new home competition in the Rancho San Diego / Spring Valley submarket.
- There is also limited land supply in the Rancho San Diego / Spring Valley submarkets, implying that there will be limited new home competition in the future.
- Resale listings are in limited supply with only 2.5 months of supply in the market (March 2013), versus the typical six months of resale supply exhibited in a balanced market.
- Demand for single family homes in San Diego County is forecasted (March 2013) to increase for the coming years.
- Supply and demand analysis (March 2013) establishes sufficient demand for the Subject single family home development at a sales pace of 63 homes per year.
- Proximity to large, established retail centers (Rancho San Diego Towne Center and Plaza Rancho Shopping Center) will appeal to potential home buyers.

For-Rent Residential Development: The potential development of attached rental product is not feasible for the following reasons:

- There is projected demand (March 2013) of only 47 new units per year, which based on the estimated number of rental units that could be built on the property (192), would translate into a lease-up period of almost four years for a relatively small project. Most new rental properties target lease-up rates of 15 to 20 units per month.
- The location of the Subject is more than a mile from the nearest freeway, which would negatively impact rental rates.
- There are at least six other apartment complexes within the immediate area of the Subject that are 100+ units in size each, which represents substantial rental competition for any new rental development.
- There are incompatible industrial developments to the east and south.
- There is a site nearby being considered for new rental units which has the potential to saturate the market.
- The location is not proximate to transit centers.

Retail Development: Not feasible for the following reasons:

- The Subject is not well-located near a freeway.
- The topography surrounding the site makes it feel isolated, and makes it difficult to create destination appeal.
- Its distance from a major freeway will mean that a major anchor tenant will most likely not be interested in the site.
- Without interest from a major anchor tenant, development financing will be difficult to obtain.
- Retail lease rates in the area are low at \$1.45 per square foot (March 2013), which is too low to support new retail development (typically \$3.00 to \$3.30 per square foot).
- Nearby retail to the north is failing and was only renting at \$1.10 per square foot (March 2013).
- Any new retail will compete with the two nearby large and established retail centers (Rancho San Diego Towne Center and Plaza Rancho Shopping Center), which already adequately serve the local population.
- The Subject would have to compete with other local retail inventory in the local market (totaling 625 retail uses and representing every major regional retail category).
- The presence of only 34,200 employees within a 10-minute drive time makes it difficult or impossible to attract quality restaurants.
- Current local retail vacancy of 7% is greater than the estimated 5% vacancy in the region, which contributes to lower lease rates.
- The lack of adjacent successful retail makes new retail development very difficult.
- Larger concept retail stores are already represented in the local retail market, and there is not a large enough local population to support a new grocery or drug store.
- As previously noted, a major anchor tenant would likely not be interested in this Site. The addition of a major anchor tenant would: 1) reduce the amount of residential units allowable at the Site, and 2) require on-grade parking for the retail patrons, which would further reduce the amount of possible residential units at the Site. While there is sufficient acreage at the Subject to accommodate a major anchor tenant such as an office supply store (with an estimated 2.4 acres required for the building and the patron parking) or a neighborhood grocery store (with an estimated 2.5 acres required for the building and the patron parking), it has already been established that there is insufficient demand in the market for these types of users.

Office Development: Not feasible for the following reasons:

- The Subject is not proximate to other office developments, and would therefore not benefit from the synergy created from an office park environment.
- Since 2010, the office vacancy rate in Spring Valley has consistently fallen in the range of about 20% to 22%, reflecting weak demand. The fact that the vacancy rate has not improved in at least five years, while other parts of the county have improved, indicates a lack of viability to bring more supply to market. In comparison, the San Diego regional vacancy rate is 13% and the San Diego East County vacancy rate is 6% (Q3 2014).

Both the National Association of Home Builders (NAHB) and JBREC prepared economic impact studies of the proposed development concept at the Subject. Both studies were relatively consistent in the estimated benefits of the Subject project. Note that the unit count for the Subject is now 122 units.

- **The Metro Area Impact of Sweetwater Village in County of San Diego, Spring Valley, California - Comparing Costs to Revenue for Local Governments**, dated June 2014, prepared by the Housing Policy Department of NAHB (National Association of Home Builders):
 - A 126-unit single family home project will generate \$21.9 million in government revenues and \$14.6 million in government costs over the first 15 years after initial development, resulting in a net profitable project.
 - The analysis showed that the first year operating surplus will be large enough to pay off entirely all debt incurred by the end of that first year.
- **The Metro Area Impact of Sweetwater Village in County of San Diego, Spring Valley, California - Income, Jobs, and Taxes Generated**, dated June 2014, prepared by the Housing Policy Department of NAHB (National Association of Home Builders):
 - Building 126 single family homes at the Subject site will create in year one \$33 million in local income, \$6.6 million in taxes and revenue for local governments, and 471 local jobs.
 - On an annual recurring basis, the project will create \$4.4 million in local income, \$1.1 million in taxes and other revenue for local governments, and 69 local jobs.
- **Economic Impact Analysis**, prepared by John Burns Real Estate Consulting, July 2013:
 - Estimates that the development of 149 new single family homes on the Subject site would generate \$31.5 million in local income and spending and 483 new jobs over the life of the project.
 - Would generate \$6.2 million in initial development and permit fees to the local governments.
 - On an annual recurring basis, the project would create about \$4.6 million in local income, \$560,000 per year in property tax revenues (to start), and 49 local jobs.

- **Market Overview and Land Optimization Report**, prepared by John Burns Real Estate Consulting, dated March 2013:
 - Addresses the feasibility of various product types at the Subject site, including for-sale homes, for-rent apartments, and retail.
 - Concludes that, based on its location and limited amount of new home competition and lack of existing supply combined with sufficient projected demand for new homes, for-sale development is the optimal use for the land.
 - Retail use is not feasible for the Subject because of:
 - Lack of freeway accessibility
 - Poor marketing window due to nearby industrial uses
 - Low lease rates in the area that are insufficient to support new retail development
 - The lack of performance of existing retail (vacant) less than one block to the north evidences a lack of demand
 - The abundance of other retail to the east of the Subject
 - Concludes that apartment development also not be feasible due to a lack of demand in the area.

- John Burns Real Estate Consulting, “Sweetwater Community Market Overview and Land Optimization”, March 2013
- John Burns Real Estate Consulting, “Economic Impact Analysis”, Spring Valley, CA, July 15, 2013
- Stoffel & Associates, “Retail Development Potential Analysis”, Sweetwater Village Site, February 2014
- Stoffel & Associates, “Analysis of a Mixed Use Retail / Residential Town Center Development located at the Sweetwater Village Site”, December 5, 2014
- Housing Policy Department of NAHB (National Association of Home Builders), “The Metro Area Impact of Sweetwater Village in County of San Diego, Spring Valley, California - Comparing Costs to Revenue for Local Governments”, June 2014
- Housing Policy Department of NAHB (National Association of Home Builders), “The Metro Area Impact of Sweetwater Village in County of San Diego, Spring Valley, California - Income, Jobs, and Taxes Generated”, June 2014
- Colliers International, “Vacancy and Absorption Statistics, Spring Valley Office”, 3rd Quarter 2014, 4th Quarter 2013, 4th Quarter 2012, 4th Quarter, 2011, 4th Quarter 2010
- Colliers International, “San Diego County Market Report, Office”, 3rd Quarter 2014
- Colliers International, “Spring Valley Office Availabilities”, December 15, 2014

6. Specific Plans and Special Study Areas

The only current Specific Plan Area in the Spring Valley Community Planning Area is the adopted Pointe/ Hansen's Ranch, the requirements and regulations for such is available at the Department of Planning and Land Use.

Special Study Area – Sweetwater Springs and Jamacha Boulevards

Issue SP 1.1 Spring Valley currently has no downtown area, and it is recognized that a town center in Spring Valley would be a positive amenity that would enhance the community identity, character and economic vibrancy. The following vision, goals and policies should guide the preparation of a development plan on this site.

An approximately 34-acre area, consisting of two non-contiguous sites at the northeast corner of Sweetwater Springs and Jamacha Boulevards, has been designated as a Special Study Area (see Figure 5). This Special Study Area is within the former right-of-way of an unbuilt segment of SR- 54, which is no longer planned to be built. This large undeveloped area offers a unique opportunity for the community of Spring Valley.

This community plan would encourage the development of the two sites as a town center and parklands for the Spring Valley CPA should it become available for private development. The development of this site would require a comprehensive master site plan prior to approval of any single development proposals. This site plan is expected to create a community-wide amenity to enhance the community of Spring Valley.

The study area should be developed with a mixture of uses, where the most encouraged uses are identified below:

- A community forum, which could include a small amount of open space, walkways with paving stones with a view of the Sweetwater Reservoir, desert landscape, benches, public art, and a small amphitheater
- Condominiums or loft type housing
- Restaurants
- Retail stores
- Shared parking facility to promote a walkable land use plan
- Pedestrian connectivity to a community park and the County Trails network
- Boutique Wineries
- Micro Breweries

Uses that would not be allowed in this town center would be non-pedestrian-oriented activities with negative impacts that would be inconsistent with the community's vision of a community-wide amenity and gathering point. Typical inconsistent uses include industrial uses such as processing activities with visual and noise impacts, recycling facilities, car repair facilities, used car lots, storage facilities, or medical marijuana dispensaries.

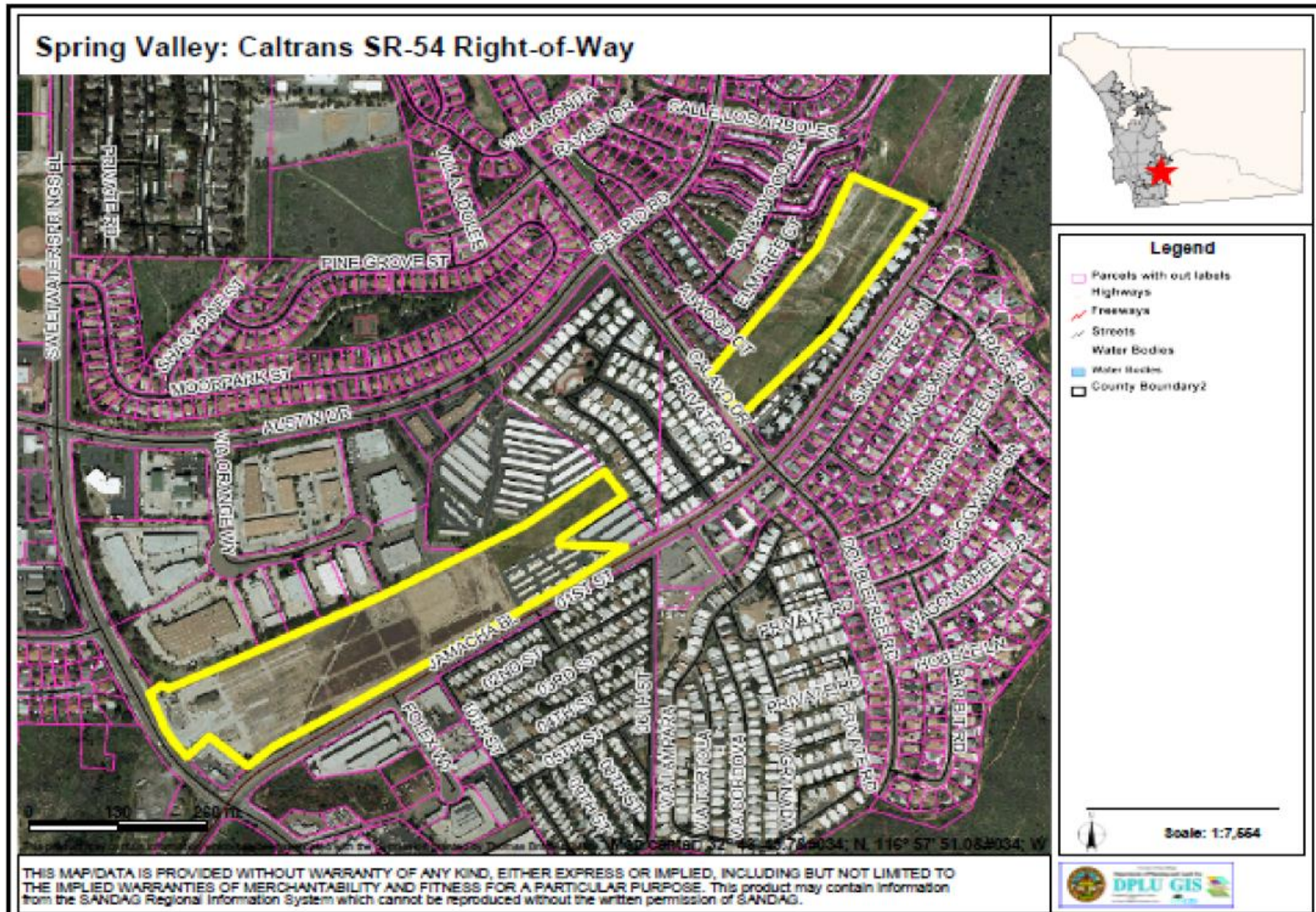


Figure 5: Spring Valley Special Study Area

The goal and policies identified below are provided to guide the development of this Special Study Area.

Goal SSA 1.1 A Spring Valley town center that provides a unique positive identity and serves as a gathering place for the community while generating economic development for the greater community.

Policy SSA 1.1.1 Encourage compatible mixed-use development of the Special Study Area with land uses such as passive recreation, retail commercial, dining and entertainment, office, and multi-family residential.

Policy SSA 1.1.2 Require a comprehensive master development plan, to be prepared with extensive community outreach, of the entire property before any development is approved. The master development plan is to identify types of land use; form, massing and scale, vehicular, bicycle, and pedestrian circulation patterns, parking plan, open space areas, viewsheds, and development phasing.

Policy SSA 1.1.3 Require all development in the Special Study Area to be scaled and oriented for the pedestrian, as well as the development to consider methods to supplement a pedestrian connection to other commercial and civic centers along Sweetwater Springs Road.

Policy SSA 1.1.4 Provide a sufficient amount of on-site parking, while minimizing the surface parking lots through other means, such as by accommodating the parking requirements with shared parking facilities, parking garages or underground.

The conclusions and recommendations presented in this report are based on our analysis of the information available to us from our own research and from the client as of the date of this report. We assume that the information is correct and reliable and that we have been informed about any issues that would affect project marketability or success potential.

Our conclusions and recommendations are based on current and expected performance of the national, and/or local economy and real estate market. Given that economic conditions can change and real estate markets are cyclical, it is critical to monitor the economy and real estate market continuously, and to revisit key project assumptions periodically to ensure that they are still justified.

The future is difficult to predict, particularly given that the economy and housing markets can be cyclical, as well as subject to changing consumer and market psychology. There will usually be differences between projected and actual results because events and circumstances frequently do not occur as expected, and the differences may be material. We do not express any form of assurance on the achievability of any pricing or absorption estimates or reasonableness of the underlying assumptions.

In general, for projects out in the future, we are assuming “normal” real estate market conditions, and not a condition of either prolonged “boom” or “bust” market conditions. We do assume that economic, employment, and household growth will occur more or less in accordance with current expectations. We are not taking into account major shifts in the level of consumer confidence; in the ability of developers to secure needed project entitlements; in the cost of development or construction; in tax laws that favor or disfavor real estate markets; or in the availability and/or cost of capital and mortgage financing for real estate developers, owners and buyers. Should there be such major shifts affecting real estate markets, this analysis should be updated, with the conclusions and recommendations summarized herein reviewed and reevaluated under a potential range of build-out scenarios reflecting changed market conditions.

We have no responsibility to update our product analysis for events and circumstances occurring after the date of our report. This analysis represents just one resource that the client should consider when assessing this development opportunity.

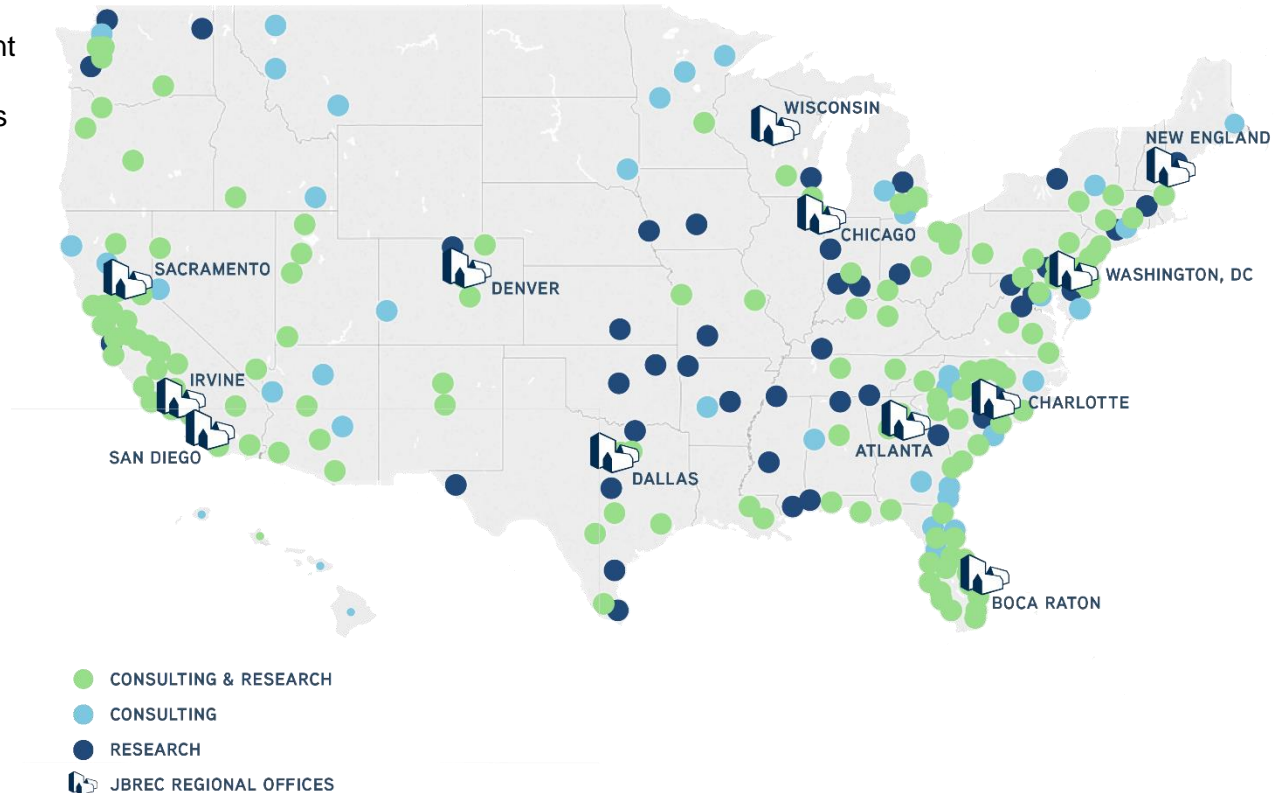
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MARKET VIABILITY OF MIXED-USE DEVELOPMENT

SWEETWATER PLACE, SPRING VALLEY, CA

(PROJECT NUMBERS: PDS2014-GPA14-003, PDS2014-REZ14-003, PDS2014-TM5588, PDS2014-STP-14-015)

SWEETWATER SPRINGS, LLC — July 2015

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